

PERAC AUDIT REPORT



Easthampton Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	11
Note 2 - Significant Accounting Policies	18
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

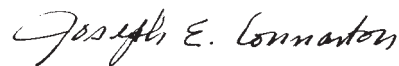
June 27, 2007

The Public Employee Retirement Administration Commission has completed an examination of the Easthampton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Robert Madison and Harry Chadwick who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Refunds

Based on a review of refunds sampled over the three-year audit period, it was determined that members who left involuntarily were not refunded 100% of their accrued interest. Pursuant to G.L. c. 32, § 11, members leaving public service involuntarily are entitled to 100% of their interest earned.

Recommendation:

PERAC's "Application for Withdrawal of Accumulated Total Deductions" should be reviewed to ensure all rules governing the refunding of interest are understood. In addition, the Board must review members' files to make sure all members who left involuntarily were refunded 100% of their accrued interest.

Board Response:

Upon review of the refunds for the three-year audit period, the Easthampton Retirement Board has refunded the proper amounts due to the members who were entitled to the interest upon leaving service involuntarily. The Administrator has also reviewed and corrected all involuntary separated members to current date. Administrator and staff will be sure to closely review all Applications for Withdrawal of Accumulated Deductions to ensure that M.G.L. c. 32, § 11 is followed.

2. Board Member Attendance

A review of the minutes of Board meetings disclosed that one Board member had an absentee rate of 25% for the three-year audit period. The prior three-year examination of the Easthampton Retirement System revealed a similar absentee rate by the same Board member.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent (25%) or more is considered excessive. It is the Board's responsibility to counsel members to make every effort to uphold their duties to the System and to take appropriate action to ensure participation of all members. The Board may consider changing the time of Board meetings in order to accommodate the member's schedule.

Board Response:

The Easthampton Retirement Board has regrettably accepted the resignation of [the subject member], who feels he was not able to dedicate the time needed to fulfill his obligation to the Easthampton Retirement Board.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Ongoing Issue

An appeal of the Contributory Retirement Appeal Board's (CRAB) decision in favor of the Easthampton Retirement Board has been filed in the Hampshire Superior Court in Civil Action No. 06-0074 (David Sullivan v. Easthampton Retirement Board). CRAB held that Sullivan is not entitled to purchase creditable service for the period he was Easthampton Town Counsel because he was not regularly employed as an employee of the Town pursuant to G.L. c. 32, § 3(2)(a)(iv) and § 3(5).

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2005	2004	2003
Net Assets Available For Benefits			
Cash	\$41,655	\$14,047	\$83,249
PRIT Cash Fund	120,756	52,245	57,125
PRIT Core Fund	23,666,594	20,986,246	18,117,967
Accounts Receivable	0	0	0
Accounts Payable	0	0	0
Total	<u>\$23,829,004</u>	<u>\$21,052,539</u>	<u>\$18,258,342</u>
Fund Balances:			
Annuity Savings Fund	\$6,454,233	\$6,193,237	\$5,819,983
Annuity Reserve Fund	2,261,340	2,208,155	2,211,623
Pension Fund	1,612,966	1,498,561	1,497,323
Military Service Fund	1,179	1,172	1,165
Expense Fund	0	0	0
Pension Reserve Fund	13,499,286	11,151,413	8,728,246
Total	<u>\$23,829,004</u>	<u>\$21,052,539</u>	<u>\$18,258,342</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$5,818,575	\$1,769,181	\$1,364,317	\$1,154	\$0	\$5,253,233	\$14,206,460
Receipts	712,648	54,544	1,665,839	12	158,848	3,474,934	6,066,824
	(622,129)	622,708	(659)	0	0	80	0
Interfund Transfers	(89,111)	(234,809)	(1,532,174)	0	(158,848)	0	(2,014,943)
Disbursements							
Ending Balance (2003)	5,819,983	2,211,623	1,497,323	1,165	0	8,728,246	18,258,342
Receipts	665,026	64,850	1,688,986	7	170,972	2,419,950	5,009,791
	(168,506)	165,289	0	0	0	3,217	0
Interfund Transfers	(123,266)	(233,608)	(1,687,748)	0	(170,972)	0	(2,215,594)
Disbursements							
Ending Balance (2004)	6,193,237	2,208,155	1,498,561	1,172	0	11,151,413	21,052,539
Receipts	788,776	66,529	1,858,895	7	218,041	2,347,872	5,280,120
	(300,790)	300,790	0	0	0	0	0
Interfund Transfers	(226,990)	(314,134)	(1,744,490)	0	(218,041)	0	(2,503,654)
Disbursements							
Ending Balance (2005)	<u>\$6,454,233</u>	<u>\$2,261,340</u>	<u>\$1,612,966</u>	<u>\$1,179</u>	<u>\$0</u>	<u>\$13,499,286</u>	<u>\$23,829,004</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$632,507	\$615,521	\$638,232
Transfers from Other Systems	84,519	0	8,243
Member Make Up Payments and Re-deposits	36,068	15,532	10,164
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>35,682</u>	<u>33,973</u>	<u>56,009</u>
Sub Total	<u>788,776</u>	<u>665,026</u>	<u>712,648</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>66,529</u>	<u>64,850</u>	<u>54,544</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	23,469	27,864	26,249
Received from Commonwealth for COLA and Survivor Benefits	119,209	41,143	92,688
Pension Fund Appropriation	<u>1,716,216</u>	<u>1,619,979</u>	<u>1,546,902</u>
Sub Total	<u>1,858,895</u>	<u>1,688,986</u>	<u>1,665,839</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>7</u>	<u>7</u>	<u>12</u>
Sub Total	<u>7</u>	<u>7</u>	<u>12</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>218,041</u>	<u>170,972</u>	<u>158,848</u>
Sub Total	<u>218,041</u>	<u>170,972</u>	<u>158,848</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	4,805	4,458	4,605
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	2,165	226	1,459
Miscellaneous Income	0	8,000	0
Excess Investment Income	<u>2,340,903</u>	<u>2,407,265</u>	<u>3,468,869</u>
Sub Total	<u>2,347,872</u>	<u>2,419,950</u>	<u>3,474,934</u>
Total Receipts	<u>\$5,280,120</u>	<u>\$5,009,791</u>	<u>\$6,066,824</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$95,851	\$48,339	\$79,535
Transfers to Other Systems	<u>131,140</u>	<u>74,927</u>	<u>9,576</u>
Sub Total	<u>226,990</u>	<u>123,266</u>	<u>89,111</u>
Annuity Reserve Fund:			
Annuities Paid	248,744	233,608	210,569
Option B Refunds	<u>65,390</u>	<u>0</u>	<u>24,241</u>
Sub Total	<u>314,134</u>	<u>233,608</u>	<u>234,809</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,146,017	1,115,698	987,421
Survivorship Payments	95,089	96,897	79,398
Ordinary Disability Payments	77,793	68,793	68,139
Accidental Disability Payments	255,038	251,368	254,012
Accidental Death Payments	81,447	80,919	80,059
3 (8) (c) Reimbursements to Other Systems	<u>89,106</u>	<u>74,075</u>	<u>63,146</u>
Sub Total	<u>1,744,490</u>	<u>1,687,748</u>	<u>1,532,174</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	67,471	66,737	64,272
Legal Expenses	10,207	5,062	975
Travel Expenses	730	1,804	403
Administrative Expenses	15,564	12,554	21,188
Furniture and Equipment	2,458	0	2,019
Management Fees	119,808	78,657	66,395
Service Contracts	0	4,232	362
Fiduciary Insurance	<u>1,803</u>	<u>1,925</u>	<u>3,233</u>
Sub Total	<u>218,041</u>	<u>170,972</u>	<u>158,848</u>
Total Disbursements	<u>\$2,503,654</u>	<u>\$2,215,594</u>	<u>\$2,014,943</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	<u>\$719,045</u>	<u>\$640,210</u>	<u>\$511,826</u>
Total Investment Income	<u>719,045</u>	<u>640,210</u>	<u>511,826</u>
Plus:			
Realized Gains	1,348,557	1,256,142	479,647
Unrealized Gains	2,241,576	1,795,754	3,112,636
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>3,590,133</u>	<u>3,051,896</u>	<u>3,592,283</u>
Less:			
Realized Loss	0	0	(40,940)
Unrealized Loss	(1,648,016)	(1,015,039)	(324,887)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(1,648,016)</u>	<u>(1,015,039)</u>	<u>(365,827)</u>
Net Investment Income	<u>2,661,162</u>	<u>2,677,067</u>	<u>3,738,282</u>
Income Required:			
Annuity Savings Fund	35,682	33,973	56,009
Annuity Reserve Fund	66,529	64,850	54,544
Military Service Fund	7	7	12
Expense Fund	<u>218,041</u>	<u>170,972</u>	<u>158,848</u>
Total Income Required	<u>320,259</u>	<u>269,802</u>	<u>269,412</u>
Net Investment Income	<u>2,661,162</u>	<u>2,677,067</u>	<u>3,738,282</u>
Less: Total Income Required	<u>320,259</u>	<u>269,802</u>	<u>269,412</u>
Excess Income To The Pension Reserve Fund	<u>\$2,340,903</u>	<u>\$2,407,265</u>	<u>\$3,468,869</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$41,655	0.2%	100.0%
PRIT Cash Fund	120,756	0.5%	100.0%
PRIT Core Fund	<u>23,666,594</u>	<u>99.3%</u>	100.0%
Grand Total	<u>\$23,829,004</u>	<u>100.0%</u>	100.0%

For the year ending December 31, 2005, the rate of return for the investments of the Easthampton Retirement System was 12.67%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Easthampton Retirement System averaged 7.12%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Easthampton Retirement System was 9.29%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Easthampton Retirement System has not submitted any supplementary investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Easthampton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Easthampton Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 13, 1993

A. All permanent employees of any member unit of the Town of Easthampton shall become members of the retirement system on the first day of employment. Such employees must have a regular scheduled work week of 20 hours or more per week with a commensurate salary.

B. An employee who works at least 20 hours per week but less than 35 hours shall be considered part time for the purpose of defining creditable service.

C. A seasonal employee who works more than 20 hours per week for five months or more in a year may elect to become a member of the Easthampton Retirement System on the first day of employment.

D. Part time employees whose work week is 20 hours or less and seasonal employees whose work week is less than 20 hours or who are employed less than 5 months in a year shall not become members of the Retirement System until they meet one of the requirements set out in A, B, or C above.

E. Elected officials shall continue to have the option of joining the Retirement System in accordance with G.L. c. 32, § 3(2) (a)(vi).

July 13, 1993

A. Full time employees will receive 1 full year of credit for each year employed.

B. Part time employees who were never employed on a full time basis will have a retirement allowance calculated on the basis of one year of credit for each year worked and their retirement allowance will be based on the average of their three highest years of salary.

C. Part time employees who were employed on both a part basis and a full time basis will have their retirement allowance calculated by using a ratio of actual part time hours worked to full time hours. The retirement allowance for members in this category will be calculated using the average of the highest 3 years of salary earned during his/her employment.

D. The Retirement Board shall credit as full time service, not to exceed a maximum of five years that period of time during which a provisional, reserve or permanent intermittent police officer or a reserve, permanent intermittent or call fire fighter was on his respective list; and provided

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

further that such permanent intermittent or call fire fighter is later appointed as a permanent full time member of the fire department. (Approved as amended August 23, 1993).

August 27, 1999

1. Per Chapter 71 of the acts of 1996, all eligible members, as defined by Chapter 32, § 1, desiring to buy back military service time are required to make application to do so within 180 days of their initial eligibility.

2. The terms and conditions of such buybacks are:

- a. The eligible member may make a lump sum buyback payment at the time of application.
- b. The eligible member may make a lump payment any time prior to 60 days before retirement.
- c. The eligible member may make arrangements with the Easthampton Retirement Board to make installments payments, provided that in all cases the total amount due is paid in full 60 days prior to retirement.

September 30, 2005

The City of Easthampton Retirement Board Travel Supplemental Regulations were approved on September 30, 2005 and amended on July 25, 2006

July 25, 2006

I. REQUIREMENTS FOR MEMBERSHIP

A. All permanent employees of any member unit of the City of Easthampton shall become members of the Easthampton Retirement System ("System") on the first day of employment. Such employees must have a regular scheduled work week of 20 hours or more per week with a commensurate salary.

B. An employee who works at least twenty hours per week but less than thirty-five hours shall be considered part-time for the purpose of defining creditable service. Notwithstanding the foregoing, salaried employees who have no defined work schedule or who have been classified by the employer to be full-time will be considered full-time for the purposes of determining creditable service, provided that said employee works at least twenty-eight hours per week.

C. A seasonal employee who works more than twenty hours per week for five consecutive months or more in a year shall become a member of the System, retroactive to the first day of employment.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

D. Part-time employees whose work week is twenty hours or less and seasonal employees whose work week is less than twenty hours or who are employed less than five months in a year shall not become members of the System until they meet one of the requirements set out in the requirements, A, B, or C above.

E. Elected officials shall continue to have the option of joining the System in accordance with General Laws Chapter 32 section 3 (2) (a) (vi), i.e. said elected official is compensated in excess of \$200 per year and applies for membership in the System within ninety days of assuming office.

F. Any person hired by the City of Easthampton as an independent contractor (paid via a 1099) as defined within the guidelines of the Social Security and IRS tests on employee status, is not eligible for membership in the System. If the employee's status changes and the individual later becomes an employee of the City of Easthampton, making the individual eligible for membership in the System, the employee will not be allowed to make payment toward creditable service for the time when the individual worked for the City as an independent contractor.

2. CREDITABLE SERVICE

A. Full-time employees will receive 1 full year of credit for each year employed. Full-time employees shall be defined as those employees who work thirty-five hours per week or a salaried employee who works at least twenty-eight hours per week.

B. Part-time employees who were never employed on a full-time basis will have a retirement allowance calculated on the basis of one year of credit for each year worked and their retirement allowance will be based on the average of their highest consecutive three years of salary.

C. Part-time employees who were employed on both a part and full-time basis will have their retirement allowance calculated by using a ratio of actual part-time hours worked to full-time hours. The retirement allowance for members in this category will be calculated using the average of the highest 3 years of salary earned during his/her employment.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. INFORMATION REQUIRED OF EMPLOYING DEPARTMENTS

A. The employing department shall, within 30 days, according to the provisions of M.G.L. Chapter 32, Sec. 3 (g), be responsible for furnishing to the Administrator of the Retirement System any information requested in order that membership qualification and creditable service can be verified.,

BUYBACK AND REPAYMENTS

1. When a member makes a repayment, they buy back time, not rights. This means that an individual is subject to the rights as they exist on the date that the individual reenters the retirement system. The individual is not entitled to the rights that were in effect during the period of service that is being purchased. The exception to this rule is an administrative error. In that situation a member who purchases such service would be eligible to contribute at the rate in effect for this earlier period if it differs from the member's current contribution rate.

2. Only an active or an inactive member may make a buyback. Retirees or non-members may not make a buyback.

3. A part-time employee who was not eligible during their past employment to contribute to the Easthampton Retirement System, who subsequently becomes full-time in the Easthampton Retirement System, may upon request, buyback their part-time service on a prorated basis only.

4. A spouse of a member who dies prior to retirement may make a buyback or repayment within 90 days from the date the board notifies spouse of retirement option. The board should notify the spouse of these rights and should specifically mention any unpaid service that is known by the board.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Joanne E. Slattery

Appointed Member: Russell Gilardi Term Expires: 12/31/07

Elected Member: James P. Dunham Term Expires: 12/31/07

Elected Member: Richard P. Gwinner Term Expires: 12/31/08

Appointed Member: Donald J. LaPlante Term Expires: 12/31/09

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$50,000,000 Fiduciary Insurance
Ex-officio Member:)	\$1,000,000 Fidelity (Crime)
Elected Member:)	AMITY
Appointed Member:)	\$1,000,000 Business Liability
Staff Employee:)	HANOVER

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2006.

The actuarial liability for active members was	\$18,173,318
The actuarial liability for vested terminated members was	372,627
The actuarial liability for non-vested terminated members was	32,911
The actuarial liability for retired members was	<u>17,177,651</u>
The total actuarial liability was	35,756,507
System assets as of that date were	<u>23,829,004</u>
The unfunded actuarial liability was	<u>\$11,927,503</u>
The ratio of system's assets to total actuarial liability was	66.6%
As of that date the total covered employee payroll was	\$7,334,932

The normal cost for employees on that date was 8.3% of payroll

The normal cost for the employer was 6.5% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by service and group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$23,829,004	\$35,756,507	\$11,927,503	66.6%	\$7,334,932	162.6%
1/1/2004	\$18,258,342	\$33,509,051	\$15,250,709	54.5%	\$7,212,233	211.5%
1/1/2002	\$15,354,887	\$29,093,267	\$13,738,380	52.8%	\$7,335,962	187.3%
1/1/2000	\$16,117,932	\$24,921,515	\$8,803,583	64.7%	\$6,443,688	136.6%
1/1/1998	\$14,342,686	\$22,233,866	\$7,891,180	64.5%	\$5,883,270	134.1%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	4	7	0	7	2	3	5	8	2	7
Ordinary Disability	1	0	0	0	0	1	1	1	1	0
Accidental Disability	1	0	1	0	0	0	1	1	1	0
Total Retirements	6	7	1	7	2	4	7	10	4	7
Total Retirees, Beneficiaries and	115	119	115	116	118	119	125	130	129	129
Survivors										
Total Active Members	210	218	216	242	253	260	259	233	233	230
Pension Payments										
Superannuation	\$7,374,145	\$743,271	\$727,131	\$770,299	\$732,173	\$736,898	\$754,806	\$987,421	\$1,115,698	\$1,146,017
Survivor/Beneficiary Payments	27,793	34,019	44,384	38,757	46,482	50,332	61,414	79,398	96,897	\$95,089
Ordinary Disability	33,830	33,043	29,368	27,137	50,370	52,761	73,091	68,139	68,793	\$77,793
Accidental Disability	149,983	143,323	176,015	186,159	184,835	185,370	216,195	254,012	251,368	\$255,038
Other	<u>251,735</u>	<u>248,613</u>	<u>238,971</u>	<u>233,976</u>	<u>271,671</u>	<u>279,058</u>	<u>300,725</u>	<u>143,204</u>	<u>154,993</u>	<u>170,553</u>
Total Payments for Year	<u>\$7,837,486</u>	<u>\$1,202,269</u>	<u>\$1,215,869</u>	<u>\$1,256,328</u>	<u>\$1,285,531</u>	<u>\$1,304,419</u>	<u>\$1,406,231</u>	<u>\$1,532,174</u>	<u>\$1,687,748</u>	<u>\$1,744,490</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac